

# **Benton Harbor - St. Joseph Joint Wastewater Treatment Plant**

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**Financial Report  
with Supplemental Information  
June 30, 2008**

# **Benton Harbor - St. Joseph Joint Wastewater Treatment Plant**

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## Independent Auditor's Report

To the Joint Board of Commissioners  
Benton Harbor - St. Joseph  
Joint Wastewater Treatment Plant

We have audited the accompanying basic financial statements of Benton Harbor - St. Joseph Joint Wastewater Treatment Plant as of June 30, 2008 and 2007 and for the years then ended. These financial statements are the responsibility of the Joint Plant's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Benton Harbor - St. Joseph Joint Wastewater Treatment Plant at June 30, 2008 and 2007 and the changes in financial position, including cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Benton Harbor - St. Joseph Joint Wastewater Treatment Plant. We did not examine this data and, accordingly, do not express an opinion thereon.

Our audits were conducted for the purpose of forming an opinion on the Joint Plant's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

August 21, 2008

# **Benton Harbor - St. Joseph Joint Wastewater Treatment Plant**

## **Management's Discussion and Analysis**

### **About the Facility**

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant (the "Joint Plant") serves the Benton Harbor - St. Joseph regional area with wastewater treatment services. The facility is owned by the cities of Benton Harbor and St. Joseph, as tenants in common. Control, management, and operation of the Joint Plant are vested in the Joint Board of Commissioners (the "Joint Board"). The Joint Board consists of eight members, with three representatives each from the cities of Benton Harbor and St. Joseph and one member each from Benton Charter Township and the Lake Michigan Shoreline Water and Sewage Treatment Authority. Act 129 of Michigan Public Acts of 1943 is the enabling state legislation authorizing the cities of Benton Harbor and St. Joseph to establish the Joint Board. The Joint Plant is a corporate body under Act 129. Act 129 charges the Joint Board with establishing treatment service rates adequate to pay bonded indebtedness and operating costs.

The Joint Plant provides wastewater treatment services to the owner cities of Benton Harbor and St. Joseph, the townships of Benton, St. Joseph, Lincoln, and Royalton, and the villages of Shoreham and Stevensville. The connected service population is approximately 57,140. Treatment capacity of the facility is 15.3 million gallons per day. For the fiscal year ended June 30, 2008, the Joint Plant treated an average flow of 9.5 million gallons per day.

### **Mission Statement and Sources of Revenue**

The Joint Plant's mission is to protect the local water resources through the development and use of sound operating and fiscal practices in the treatment of municipal wastewater. To meet its mission, the Joint Plant must generate sufficient funds through its bulk (wholesale) treatment rate to meet current operating and maintenance costs and long-term capital requirements. The bulk rate charged tributary governmental units for wastewater treatment service is reviewed annually and adjusted periodically by the Joint Board to meet projected needs. For the fiscal year ended June 30, 2008, the bulk treatment rate was \$1,241 per million gallons. The bulk treatment rate provides in excess of 95 percent of the Joint Plant's total operating revenue. Revenue contributed by the tributary governmental units is a factor of discharged flow and the bulk treatment rate. Other sources of revenue, in order of magnitude, include septic tank waste treatment, industrial surcharges (high-strength wastewaters), and laboratory fees. Revenue from bulk treatment increased during this fiscal year due to an 8.57 percent increase in the bulk treatment rate effective January 1, 2008 and an increase in tributary governmental flows when compared to fiscal year 2006-2007. In addition, revenue from septic tank dischargers increased as the number of such contributing firms has increased as well as the unit rate to treat septic waste effective July 1, 2006. Revenues from industrial surcharges and laboratory fees have been on a steady decline in recent years as the number of permitted industrial users and extra strength dischargers have decreased. At this time, Old Europe Cheese is the only significant extra strength discharger in the plant's service area.

# Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

## Management's Discussion and Analysis (Continued)

### Condensed Financial Information

The following table represents condensed information about the Joint Plant's financial position for the past three fiscal years. Total net assets increased by approximately \$2,638,000 between fiscal years 2006-2008. Unrestricted net assets include an amount designated by the board for future construction projects. Investment maturities have been structured to meet these future needs:

	Fiscal Year Ended June 30		
	2008	2007	2006
<b>Assets</b>			
Current assets	\$ 6,697,764	\$ 5,888,766	\$ 7,539,172
Capital assets	<u>16,057,691</u>	<u>16,232,299</u>	<u>14,150,842</u>
Total assets	22,755,455	22,121,065	21,690,014
<b>Liabilities</b>			
Current liabilities	648,853	1,399,374	1,864,902
Long-term debt	<u>821,075</u>	<u>821,076</u>	<u>1,178,369</u>
Total liabilities	<u>1,469,928</u>	<u>2,220,450</u>	<u>3,043,271</u>
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	15,236,616	15,053,929	12,628,174
Unrestricted	<u>6,048,911</u>	<u>4,846,686</u>	<u>6,018,569</u>
Total net assets	<u><b>\$ 21,285,527</b></u>	<u><b>\$ 19,900,615</b></u>	<u><b>\$ 18,646,743</b></u>

# Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

## Management's Discussion and Analysis (Continued)

### Operating Income and Expenses

The Joint Plant's financial position at June 30, 2008 is sound. Operating income from the bulk treatment charges combined with nonoperating interest income and revenue from septage treatment charges, industrial "high-strength" surcharges, laboratory fees, and other miscellaneous income was adequate to meet operating expenses. The largest capital improvement project to date, the Digester Renovation and Chlorination Project, with a cost of approximately \$10,000,000, is substantially complete. The next scheduled improvement project calls for the installation of an additional raw wastewater influent pump and associated electrical system upgrades. This project cost is estimated at \$1,600,000 and will be funded from reserves. The project is expected to start in fall 2008. Operating income and expense, nonoperating income, and capital improvement expenditures for the past three fiscal years are presented below:

	Fiscal Year Ended June 30		
	2008	2007	2006
Operating revenue:			
Operating income (treatment charges)	\$ 4,434,876	\$ 3,918,615	\$ 3,171,291
Lab, septic, and miscellaneous billings	<u>144,622</u>	<u>123,102</u>	<u>74,336</u>
Total operating revenue	4,579,498	4,041,717	3,245,627
Operating expenses:			
Operating and maintenance costs	2,114,096	1,937,469	1,818,404
Depreciation	915,001	755,249	731,961
Administrative and other	<u>341,959</u>	<u>306,069</u>	<u>269,511</u>
Total operating expenses	3,371,056	2,998,787	2,819,876
Nonoperating income (expense):			
Nonoperating income (interest income)	214,496	261,622	300,218
Nonoperating expense (primarily interest expense)	<u>(38,026)</u>	<u>(50,680)</u>	<u>(54,924)</u>
Total nonoperating income	<u>176,470</u>	<u>210,942</u>	<u>245,294</u>
Net income	<u>\$ 1,384,912</u>	<u>\$ 1,253,872</u>	<u>\$ 671,045</u>
Expenditures for capital improvements	<u>\$ 740,733</u>	<u>\$ 2,836,706</u>	<u>\$ 5,389,550</u>

# **Benton Harbor - St. Joseph Joint Wastewater Treatment Plant**

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## **Management's Discussion and Analysis (Continued)**

As the data indicates, operating income for fiscal 2008 increased by approximately \$166,000 over the previous fiscal year as a result of higher flows from the tributary governmental units and an increase in the bulk treatment rate effective January 1, 2008. Looking forward, operating income is anticipated to steadily rise over the next five years with forecasted increases in the bulk treatment rate. Operating expenses increased from the previous fiscal year by approximately \$372,000 mainly due to additional staffing, increased pension fund contributions, health care, electricity and natural gas cost increases, and additional billing charges due the cities of Benton Harbor and St. Joseph. In addition, depreciation expenses have increased as completed construction work has been capitalized and is now being depreciated. Operating expenses are expected to trend upward. The Joint Plant is experiencing increasing difficulty in managing operating costs with rising natural gas costs and increased employee benefit costs - primarily in the area of health insurance premiums and required pension fund contributions. Management recognizes that control over year-to-year operating costs is essential to the long-term financial health of the facility. Efforts to control operating costs are ongoing. A five-year financial plan is employed to forecast revenue, operating and maintenance, and capital improvements costs.

### **Nonoperating Interest Income**

In years past as well as in fiscal year 2008, nonoperating income has significantly contributed to the Joint Plant's overall revenue base. The decrease in interest income this past year is a reflection of the Joint Plant's decreasing reserves due to large capital improvement expenditures in the past three years of approximately \$8,967,000. Interest rates have decreased and are expected to remain that way over the next year. With the funding requirements for completion of the Digester Renovation and Chlorination Project and the startup of the New Influent Wastewater Pump and Electrical Upgrade Project, the Joint Plant's investment portfolio is expected to decrease along with interest income over the next fiscal year.

### **Capital Improvements and Funding Requirements**

Funding needs for capital improvements are a significant element in the Joint Plant's financial plan. The facility's five-year capital plan calls for the expenditure of \$11,220,000 in facility improvements. Of this amount, approximately \$5,080,000 is currently available to meet capital requirements. The balance of the required funds will be generated through operating revenues and possibly, short-term capital equipment leases. For fiscal year 2007-2008, capital expenditures were primarily related to construction, inspection, and engineering work associated with the Digester Renovation and Chlorination Project and design engineering work related to the New Influent Wastewater Pump and Electrical Upgrade Project.

# **Benton Harbor - St. Joseph Joint Wastewater Treatment Plant**

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## **Management's Discussion and Analysis (Continued)**

Looking beyond the next five years, capital improvements totaling an additional \$10,550,000 have been identified. These proposed projects are listed in the Joint Plant's 10-year Capital Improvement Plan as found in the fiscal 2008-2009 budget. These projected capital needs are a result of the Strategic Capital Improvement Plan (SCIP) prepared for the Joint Plant by Consoer Townsend Envirodyne Engineers. Elements of the SCIP include assessment of the physical condition of the existing plant, a review of projected future service requirements (population, business, and residential growth within the Joint Plant's service area), existing treatment process and hydraulic capacity limitations in the facility, and identification of capital needs over the next 10 years. The SCIP study was completed in fiscal 2004 and provides a roadmap for future capital projects at the Joint Plant.

### **Fiscal Year 2008 Budget Variances**

The 2008 fiscal year ended with actual operating income higher than budgeted income by \$1,033,000. Operating expenses before depreciation, on the other hand, closed the year under budget by approximately \$174,000. Savings in budgeted labor expense (\$125,565), operating supplies (\$29,149), and repair and maintenance supplies and contracts (\$26,933) accounted for a majority of this amount. Savings of this magnitude are not anticipated for future budget years. The contract with the Joint Plant's land application contractor will expire in December 2008. The latest supply contract bids for polymer and ferrous chloride resulted in significantly higher unit costs for these materials. The subject contracts have been extended through December 2008 for cationic polymer and April 2009 for ferrous chloride. Disinfection costs are expected to rise as a result of the increased costs in sodium hypochlorite and sodium bisulfite. The supply contracts for these disinfection agents expire in December 2008. While natural gas costs came in below budget, electric power costs were over budget due to additional pumping requirements related to higher influent flows. The costs of these commodities are expected to rise in the coming years. Natural gas costs have risen and are quite unstable on a monthly basis. The feasibility of purchasing natural gas supply contracts has been implemented in the past and is being evaluated on a continual basis.



# **Benton Harbor - St. Joseph Joint Wastewater Treatment Plant**

## **Management's Discussion and Analysis (Continued)**

### **Capital Assets**

An appraisal of the Joint Plant's buildings and equipment is conducted regularly for property insurance purposes. The most recent appraisal, conducted on December 8, 2006, established the replacement insurable value of the plant at \$42,679,706. To protect this investment in physical assets, the Joint Plant has developed and maintains a 10-year capital improvement plan. The capital plan, which is updated annually, is directed toward maintaining, improving, and expanding the facility. Identified capital improvements total \$11,224,000 over the next five years and \$21,774,000 over 10 years. Funding for the proposed improvements is anticipated to come from operating revenue. Long-term bonding is not expected to be employed to fund these improvements. Lease purchase agreements may be utilized to meet short-term, three- to six-year cash flow requirements for these projects. The general condition of the physical assets (buildings and equipment) is considered good, but maintaining the capital improvement schedule as proposed will be critical in protecting the long-term value and reliability of these assets. Consoer Townsend Envirodyne Engineers, along with Joint Plant management, has developed an updated strategic capital improvement plan for the facility. This plan identifies and prioritizes capital needs and their associated costs through fiscal 2018. The study was completed in fiscal 2004.

The Joint Plant has entered into a capital lease agreement with Key Governmental Finance for the purpose of short-term funding for the current improvement project. A total of \$1,800,000 was secured for this purpose with a repayment term of 60 months. Proposals were solicited from several financial institutions and reviewed by the Joint Board prior to entering into the agreement with Key Governmental Finance. A balance of \$821,080 is outstanding as of June 30, 2008.

### **Contacting the Joint Plant's Management**

The purpose of this management's discussion and analysis is to provide an overview of the current and prospective financial condition of the Joint Plant's operations and physical assets. Questions concerning this report may be directed to Timothy J. Lynch, plant manager.

# Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

## Statement of Net Assets

	June 30	
	2008	2007
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 1,465,379	\$ 1,887,025
Investments (Note 3)	4,353,544	3,249,700
Accounts receivable	732,534	579,482
Accrued interest receivable	59,462	77,745
Prepaid expenses	86,845	94,814
Capital assets - Net (Note 4):		
Assets subject to depreciation	15,267,343	12,860,003
Assets not subject to depreciation	790,348	3,372,296
<b>Total assets</b>	<b>22,755,455</b>	<b>22,121,065</b>
<b>Liabilities</b>		
Capital lease - Current portion (Note 5)	370,778	357,294
Accounts payable	285,388	404,334
Contracts retainage payable	161,135	459,281
Accrued wages payable and other liabilities	202,330	178,465
Noncurrent liabilities - Due in more than one year - Capital lease (Note 5)	450,297	821,076
<b>Total liabilities</b>	<b>1,469,928</b>	<b>2,220,450</b>
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	15,236,616	15,053,929
Unrestricted (Note 2)	6,048,911	4,846,686
<b>Total net assets</b>	<b>\$ 21,285,527</b>	<b>\$ 19,900,615</b>

# Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

## Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2008	2007
<b>Operating Revenue</b>		
Sewage treatment charges	\$ 4,434,876	\$ 3,918,615
Laboratory fees	15,574	17,810
Miscellaneous	129,048	105,292
Total operating revenue	4,579,498	4,041,717
<b>Operating Expenses</b>		
Operation and maintenance	2,114,096	1,937,469
Depreciation	915,001	755,249
Administrative and other	341,959	306,069
Total operating expenses	3,371,056	2,998,787
<b>Operating Income</b>	1,208,442	1,042,930
<b>Nonoperating Income (Expense)</b>		
Interest earnings on investments	214,496	261,622
Interest expense	(37,686)	(50,680)
Loss on disposal of capital asset	(340)	-
Total nonoperating income	176,470	210,942
<b>Net Income</b>	1,384,912	1,253,872
<b>Net Assets - Beginning of year</b>	19,900,615	18,646,743
<b>Net Assets - End of year</b>	<u>\$ 21,285,527</u>	<u>\$ 19,900,615</u>

# Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

## Statement of Cash Flows

	Year Ended June 30	
	2008	2007
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 4,426,446	\$ 3,747,267
Cash payments to suppliers for goods and services	(1,376,422)	(1,032,005)
Cash payments to employees for services	(1,166,745)	(1,074,808)
Net cash provided by operating activities	1,883,279	1,640,454
<b>Cash Flows from Capital and Related Financing Activities</b>		
Payments for acquisition or construction of capital assets	(1,038,879)	(3,455,536)
Principal and interest paid on capital debt	(394,981)	(394,980)
Net cash used in capital and related financing activities	(1,433,860)	(3,850,516)
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	3,249,700	5,417,805
Payments for purchase of investments	(4,353,544)	(3,249,700)
Interest received on investments	232,779	310,589
Net cash (used in) provided by investing activities	(871,065)	2,478,694
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(421,646)	268,632
<b>Cash and Cash Equivalents - Beginning of year</b>	1,887,025	1,618,393
<b>Cash and Cash Equivalents - End of year</b>	<u><b>\$ 1,465,379</b></u>	<u><b>\$ 1,887,025</b></u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
Operating income	\$ 1,208,442	\$ 1,042,930
Adjustments to reconcile operating income to net cash from operating activities - Changes in assets and liabilities:		
Depreciation	915,001	755,249
(Increase) decrease in assets:		
Accounts receivable	(153,052)	(294,450)
Prepaid expenses	7,969	(3,582)
Increase (decrease) in liabilities:		
Accounts payable	(118,946)	120,002
Accrued wages and other liabilities	23,865	20,305
Net cash provided by operating activities	<u><b>\$ 1,883,279</b></u>	<u><b>\$ 1,640,454</b></u>

**Noncash Operating, Capital, and Investing Activities** - During the year, there were no noncash activities.

# **Benton Harbor - St. Joseph Joint Wastewater Treatment Plant**

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## **Notes to Financial Statements June 30, 2008 and 2007**

### **Note 1 - Nature of Entity**

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant (the "Joint Plant") is a joint venture of the cities of Benton Harbor and St. Joseph, Michigan and was created pursuant to Public Act 129, Michigan Public Acts of 1943. Its allowed purpose is to acquire and operate a sewage disposal system. The Joint Plant currently operates a sewage transportation and processing system to these communities as well as for surrounding municipalities.

The Internal Revenue Service has ruled that the Joint Plant is a political subdivision of the State of Michigan and, as a result, is exempt from federal income tax.

### **Note 2 - Summary of Significant Accounting Policies**

The accounting policies of Benton Harbor - St. Joseph Joint Wastewater Treatment Plant conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of significant accounting policies:

**Reporting Entity** - The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in a reporting entity. In accordance with these guidelines, there are no component units to be included in the financial statements.

**Basis of Accounting** - The accrual basis of accounting is used to account for the operations of the Joint Plant. The Joint Plant follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The Joint Plant has elected not to follow private sector standards issued after November 30, 1989.

**Operating Revenue** - Operating revenue represents billings to area municipalities based on flow rates metered by the Joint Plant as well as charges to local businesses for extra strength industrial processing.

**Capital Assets** - Property, plant, and equipment are stated at cost. Depreciation has been charged as an expense against operations of the Joint Plant on a straight-line basis.

**Cash Equivalents** - The Joint Board considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

# **Benton Harbor - St. Joseph Joint Wastewater Treatment Plant**

## **Notes to Financial Statements June 30, 2008 and 2007**

### **Note 2 - Summary of Significant Accounting Policies (Continued)**

**Investments** - Investments are recorded at fair value, based on quoted market prices.

**Unrestricted Net Assets** - The Joint Plant, through board action, has designated the use of unrestricted net assets as follows:

	2008	2007
Designated for future repairs and replacements	\$ 4,000,000	\$ 4,000,000
Undesignated	2,048,911	846,686
Total unrestricted net assets	<u>\$ 6,048,911</u>	<u>\$ 4,846,686</u>

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Joint Plant has designated four banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the above except deposits in credit unions and repurchase agreements. The Joint Plant's deposits and investment policies are in accordance with statutory authority.

# Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

## Notes to Financial Statements June 30, 2008 and 2007

### Note 3 - Deposits and Investments (Continued)

The Joint Plant's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Joint Plant's deposits may not be returned to it. The Joint Plant does not have a deposit policy for custodial credit risk. At year end, the Joint Plant had approximately \$5,180,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Joint Plant believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Joint Plant evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Joint Plant will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Joint Plant does not have a policy for custodial credit risk. At year end, approximately \$520,000 of investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Joint Plant's name.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Joint Plant's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. At year end, the maturities of investments are as follows:

Investment	Fair Value	Investment Maturity	
		Less than 1 Year	1-5 Years
Commercial paper	\$ 512,044	\$ 512,044	\$ -

# Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

## Notes to Financial Statements June 30, 2008 and 2007

### Note 3 - Deposits and Investments (Continued)

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Joint Plant has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Commercial paper	\$ 512,044	A-1 P-1	Moody's

### Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	2007	Additions	Disposals	Transfers	2008	Depreciable Life - Years
Land	\$ 24,161	\$ -	\$ -	\$ -	\$ 24,161	-
Land improvements	104,032	-	-	-	104,032	10-25
Buildings	12,884,554	-	-	-	12,884,554	25-50
Equipment	12,129,423	82,877	(415,728)	3,239,804	15,036,376	3-25
Construction in progress	3,348,135	657,856	-	(3,239,804)	766,187	-
Total	28,490,305	740,733	(415,728)	-	28,815,310	
Less accumulated depreciation	(12,258,006)	(915,001)	415,388	-	(12,757,619)	
Net carrying amount	\$ 16,232,299	\$ (174,268)	\$ (340)	\$ -	\$ 16,057,691	

The Joint Plant had commitments as of June 30, 2008 as follows:

	Spent to Date	Remaining Commitment
WWTP 2004 improvements	\$ 8,230,000	\$ 91,000



# Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

## Notes to Financial Statements June 30, 2008 and 2007

### Note 5 - Long-term Debt

The Joint Plant has entered into a lease agreement as lessee for the purpose of financing the completion of the Digester Renovation and Chlorination Project. A summary of debt outstanding of the Joint Plant at June 30, 2008 is as follows:

	Interest Rate	Principal Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Capital lease payable - Amount of issue: \$1,800,000	3.710	8/30/2010	<u>\$ 1,178,370</u>	<u>\$ -</u>	<u>\$(357,295)</u>	<u>\$ 821,075</u>	<u>\$ 370,778</u>

### Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2008, including both principal and interest, are as follows:

Years Ending June 30	Principal	Interest
2009	\$ 370,778	\$ 24,202
2010	384,772	10,208
2011	<u>65,525</u>	<u>304</u>
Total	<u>\$ 821,075</u>	<u>\$ 34,714</u>

### Interest

Interest expense of the Joint Plant for the year ended June 30, 2008 approximated \$38,000.

### Note 6 - Defined Benefit Pension Plan

**Plan Description** - Benton Harbor - St. Joseph Joint Wastewater Treatment Plant contributes to the City of St. Joseph Employees' Retirement System, a multi-employer defined benefit pension plan administered by the City of St. Joseph. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan issues a publicly available financial report that is included in the basic financial statements of the City of St. Joseph. That report may be obtained by writing to the City of St. Joseph, Broad Street, St. Joseph, Michigan.

# **Benton Harbor - St. Joseph Joint Wastewater Treatment Plant**

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## **Notes to Financial Statements June 30, 2008 and 2007**

### **Note 6 - Defined Benefit Pension Plan (Continued)**

The obligation to contribute to and maintain the system for these employees was established by a resolution of the Joint Plant's board of directors and requires a contribution from the employees of 4 percent of gross wages. The Joint Plant is required to contribute at actuarially required rates resulting in a contribution of \$80,948 and \$67,659 for the years ended June 30, 2008 and 2007, respectively. The contribution for the year ending June 30, 2009 is projected at 6.36 percent of payroll.

### **Note 7 - Other Postemployment Benefits**

The Joint Plant has elected to provide postemployment health benefits to certain retirees. The Joint Plant pays 50 percent of the cost of medical premiums for all retired management employees until the age of 65. The Joint Plant also pays 50 percent of the medical premiums for all union employees for up to 24 months from the eligibility date of retirement. Currently, three retirees are receiving postemployment health benefits. For the fiscal year ended June 30, 2008, the Joint Plant made payments for postemployment health benefit premiums of approximately \$16,000. The Joint Plant obtains healthcare coverage through private insurers.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for governmental entities in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

# **Benton Harbor - St. Joseph Joint Wastewater Treatment Plant**

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## **Notes to Financial Statements June 30, 2008 and 2007**

### **Note 8 - Risk Management**

The Joint Plant is exposed to various risks of loss related to property loss, torts, errors and omissions, unemployment claims, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Joint Plant participates in the following risk management plans sponsored by the Michigan Municipal League to minimize its exposure to loss in these areas:

- Michigan Municipal Liability and Property Pool - Property, general liability, errors and omissions, and automotive coverage
- Municipal Unemployment Compensation Group Account
- Michigan Municipal Workers' Compensation Fund
- Michigan Municipal League Cluster for Employee Medical Benefits - Blue Cross/Blue Shield and vision coverage

The Joint Plant has also purchased commercial insurance coverage for dental benefits (all employees) and short-term disability benefits for unionized employees.

The Michigan Municipal League operates/administers the referenced risks management plans for local units of government in Michigan; members' premiums are used to support the risk pools and underlying coverage, to purchase commercial excess insurance coverage, and to pay claims in excess of deductible amounts.

Settled claims relating to the various risk pools or commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

## **Supplemental Information**

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# **Benton Harbor - St. Joseph Joint Wastewater Treatment Plant**

## **Schedule of Treatment Charges - Budget and Actual Year Ended June 30, 2008**

	Original and Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Sewage Treatment Charges</b>			
Benton Harbor billings:			
City of Benton Harbor	\$ 620,000	\$ 676,062	\$ 56,062
Benton Charter Township	1,097,000	1,517,981	420,981
St. Joseph Charter Township	107,000	111,473	4,473
Total Benton Harbor billings	1,824,000	2,305,516	481,516
St. Joseph billings:			
City of St. Joseph	822,000	913,284	91,284
Lake Michigan Shoreline Authority	1,013,000	1,149,742	136,742
Total St. Joseph billings	1,835,000	2,063,026	228,026
Industrial surcharges	30,000	66,334	36,334
Total sewage treatment charges	3,689,000	4,434,876	745,876
<b>Other Operating Income</b>			
Laboratory fees	15,000	15,574	574
Miscellaneous fees	56,700	129,048	72,348
<b>Nonoperating Income - Interest earnings on investments</b>			
	-	214,496	214,496
Total revenue	<b>\$ 3,760,700</b>	<b>\$ 4,793,994</b>	<b>\$ 1,033,294</b>

# **Benton Harbor - St. Joseph Joint Wastewater Treatment Plant**

## **Schedule of Operating Expenses - Budget and Actual Year Ended June 30, 2008**

	Original and Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Operation and Maintenance</b>			
Payroll expenses	\$ 1,316,175	\$ 1,190,610	\$ 125,565
Operating supplies	117,200	88,051	29,149
Repair and maintenance supplies	26,700	24,622	2,078
Sludge handling	245,000	241,838	3,162
Transportation	10,700	6,855	3,845
Repair and maintenance contracts	82,000	57,145	24,855
Public utilities	501,000	504,975	(3,975)
Total operation and maintenance	<u><u>\$ 2,298,775</u></u>	<u><u>\$ 2,114,096</u></u>	<u><u>\$ 184,679</u></u>
<b>Administrative and Other</b>			
Professional services	\$ 45,500	\$ 35,540	\$ 9,960
Office supplies	6,000	4,468	1,532
Printing	700	524	176
Insurance and bonds	52,000	45,331	6,669
Billing charges	183,000	218,375	(35,375)
Miscellaneous	44,500	37,721	6,779
Total administrative and other	<u><u>\$ 331,700</u></u>	<u><u>\$ 341,959</u></u>	<u><u>\$ (10,259)</u></u>

# **Benton Harbor - St. Joseph Joint Wastewater Treatment Plant**

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**Report to the Joint Board of Commissioners  
June 30, 2008**

**Plante & Moran, PLLC**

Suite 120  
511 Renaissance Drive  
St. Joseph, MI 49085  
Tel: 269.982.8000  
Fax: 269.982.2800  
plantemoran.com

To the Joint Board of Commissioners  
Benton Harbor - St. Joseph Joint  
Wastewater Treatment Plant

We have recently completed our audit of the basic financial statements of Benton Harbor - St. Joseph Joint Wastewater Treatment Plant (the "Joint Plant") for the year ended June 30, 2008. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, summary of unrecorded possible adjustments, recommendations, and informational comments which impact the Joint Plant:

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<b>Report on Internal Control</b>	1-2
<b>Results of the Audit</b>	3-5
<b>Other Matters</b>	6-7

We are grateful for the opportunity to be of service to the Benton Harbor - St. Joseph Joint Wastewater Treatment Plant. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Plante & Moran, PLLC*

August 21, 2008



## **Report on Internal Control**

August 21, 2008

To the Joint Board of Commissioners  
Benton Harbor - St. Joseph Joint  
Wastewater Treatment Plant

Dear Joint Board Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the Joint Plant's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the Benton Harbor - St. Joseph Joint Wastewater Treatment Plant as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Joint Plant's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Joint Plant's internal control. Accordingly, we do not express an opinion on the effectiveness of the Joint Plant's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following control deficiency to be a significant deficiency.

August 21, 2008

During our audit, we identified and corrected a posting error in which a cash transfer between two different cash accounts was not fully recorded. Based on our discussion with Plant management, this discrepancy was the result of a timing difference. Because the cash transfer involved moving funds between two banks, the withdrawal from the first bank was recorded prior to year end, but the deposit into the second account was not recorded until early July. The offsetting side of this transaction involved a payroll liability, which, as a result of this transaction not being fully recorded was understated. The impact of our journal entry was to increase the cash balance and increase the accrued wages liability.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the Joint Board, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, appearing to read 'Kenley Penner', written in a cursive style.

Kenley Penner, CPA  
Partner

## **Results of the Audit**

August 21, 2008

To the Joint Board of Commissioners  
Benton Harbor - St. Joseph Joint  
Wastewater Treatment Plant

We have audited the financial statements of Benton Harbor - St. Joseph Joint Wastewater Treatment Plant for the year ended June 30, 2008 and have issued our report thereon dated August 21, 2008. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated June 25, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Benton Harbor - St. Joseph Joint Wastewater Treatment Plant. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 11, 2008.

## **Significant Audit Findings**

### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Joint Plant are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the organization during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

### ***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management's Representations***

We have requested certain representations from management that are included in the management representation letter dated August 21, 2008.

August 21, 2008

***Management's Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

In the normal course of our professional association with the organization, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the organization's auditors.

This information is intended solely for the use of the Joint Board of Commissioners and management of the Benton Harbor - St. Joseph Joint Wastewater Treatment Plant and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, appearing to read "Kenley Penner", written over a horizontal line.

Kenley Penner, CPA  
Partner

## **Other Matters**

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## **Other Matters**

### **Investment Policy Testing**

During the audit, we reviewed the investment policy requirements of the Joint Plant and it appears that the Joint Plant is following this policy. We did not note any exceptions during our testing of June 30, 2008 balances. We would like to compliment the board on the excellent condition of the investment records and the positive condition of the investment portfolio. Based on our review, it appears that the portfolio is diversified, in compliance with the investment policy. It also appears that all required procedures are in place and being followed by the plant manager as directed by the board.

### **Retiree Healthcare Benefits - Reminder**

The Governmental Accounting Standards Board released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of this pronouncement is to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. As this cost recognition will involve some detailed calculations, possibly requiring the use of an actuary, we recommend beginning planning for this new standard as soon as possible. Full implementation will be required for the fiscal year 2010.

We would be happy to discuss these comments with you at any time. We appreciate the courtesy extended to us during the audit.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, appearing to read "Kenley Penner".

Kenley Penner, CPA  
Partner